

**LINCOLN COUNTY, WASHINGTON**  
**January 1, 1992 Through December 31, 1992**

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**Schedule Of Findings**

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1. The County Should Integrate Grant Accounting Into Its General Accounting System

The county has not integrated all of its grant accounting into the county's general accounting system. The vast majority of the grants received by Lincoln County are operated within the Road Fund. Expenditures for county road construction are currently accounted for using a cost accounting system within the county engineers department. Accounting within this system identifies expenditures by road project but does not identify the application of grant funds. Summary information is transferred from the cost accounting system to the county's general accounting system. However, due to system incompatibility, complete grant project numbers cannot be transferred. Thus, the general accounting system is incapable of providing project identification.

The "Common Rule," the *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, Subpart C., Section\_\_20,(b)(2), Accounting Records, states in part:

Grantees and Subgrantees must maintain records which adequately identify the source and application of funds provided for financial-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income . . . .

OMB Circular A-128, *Audits Of State And Local Governments*, paragraph 8.b(1) states in part:

In order to determine which major programs are to be tested for compliance, State and local governments shall identify in their accounts all Federal funds received and expended and the programs under which they were received . . . .

Lincoln County accounts for transactions and prepares its financial statements on the basis of accounting prescribed by Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual as prescribed by the State Auditor. According to BARS, Part 3, Chapter 5, Section A:

1. Grant accounting must be integrated with a municipality's general accounting records . . . .
2. Grant accounting must provide for a segregation, by program/activity/function within each grant, of the following . . . .

d. Expenditures already disbursed . . .

f. Non-federal share of costs . . . .

Because of the lack of an integrated grant accounting system, we could not trace all expenditures reported on the schedule of financial assistance directly to the county's general accounting system, nor were we able to gain sufficient assurance that eligible grant expenditures are not charged to more than one grant.

We recommend county officials integrate all grant accounting with its financial accounting system.

2. The County Should Ensure That All Grants Received In The Name Of The County Are Authorized Grants Of The County

The Lincoln County Alcohol/Drug Center (the Center) is a department within Lincoln County. The Center applied for and received a grant entitled "Community Mobilization Against Substance Abuse." The original award was begun July 1, 1989, and renewed each year through the current period. The Center established an illegal contract as it was not authorized by the eligible grantee to sign the assurances required by the grant. The director of the Center conducted all transactions of the grant by means of a checking account drawn on a local bank.

*Uniform Administrative Requirements for Grants and Cooperative Agreements To State And Local Governments*, the "Common Rule," Subpart A, paragraph 3 states that:

Grantee means the government to which the grant is awarded and which is accountable for the use of the funds. The grantee is the entire legal entity even though a particular component of the entity is designated in the grant award document.

By other definition in the same section, the county is the "eligible grantee" to have received the award.

In addition to the grant being unauthorized, grant revenues were not deposited with the county treasurer, nor were expense vouchers processed through the county auditor. As an unauthorized grant, the county may be liable for returning the full amount of the awards to the grantor.

The cause of this situation was a lack of awareness on the part of county management for the need to follow up on the status of the original grant award and to determine what procedures were being followed at the Center. On subsequent awards, the Center director continued to follow the same procedures for operation of the grant. County management was not aware of the existence of these subsequent grants.

We recommend that the county develop procedures to ensure that all grants received are properly authorized. We also recommend the county reestablish the grant application under proper legal authority.

3. The County Should Ensure That The Sources And Application Of All Grant Funds Are Identified In The Financial Records Of The County

The county's accounting records failed to identify the source and application of all grant funds. The county applied for and received Federal Emergency Management Agency (FEMA) funds to reimburse losses incurred in "Firestorm 91." When the reimbursement was received the proceeds were deposited in the emergency services management's revolving account. The engineer, sheriff, and mental health departments filed their individual claims through the director of emergency services. The grant funds were then disbursed from the revolving account to the respective departments. The depositing and disbursement of the grant funds through the revolving account circumvented the county's accounting records and precluded identification of source and application of FEMA assistance funds.

Office of Management and Budget (OMB), Circular A-102, *Grants And Cooperative Agreements With State And Local Governments*, Subpart C, Section 20(b)(2), states that for accounting records:

Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.

The county's failure to identify the source and application of grant funds was caused as the result of a misunderstanding that led the director of emergency service to believe it was necessary that grant funds had to be distributed directly from that department rather than go through the county's accounting system.

We recommend the county develop policies and procedures to ensure that the source and application of all grants funds are identified within the county's accounting records.

4. The County Should Develop Controls To Ensure All Funds Received Are Deposited With The County Treasurer

Our audit disclosed two instances where federal grant funds were received but not deposited with the county treasurer (see Findings 2 and 3). These grant funds were instead deposited into county departmental revolving bank accounts.

Article XI, Section 15 of the Washington State Constitution states in part:

All moneys . . . collected for the use of any county, city, town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer . . . for the benefit of the funds to which they belong.

The failure to deposit these funds with the treasurer resulted from a lack of control procedures for the receipting and depositing of all moneys received within the county. A contributing factor was the use of departmental revolving funds maintained as checking accounts in local banks. In effect, county officials were unaware that the money was received and disbursed. In addition, these transactions were not included in the accounting records of the county.

We recommend that the county develop procedures to ensure that all moneys received are correctly receipted and deposited.